



J. TYLER McCAULEY
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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June 4, 2007

TO: Supervisor Zev Yaroslavsky, Chairman
Supervisor Gloria Molina
Supervisor Yvonne B. Burke
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley 
Auditor-Controller

SUBJECT: **SOUTH CENTRAL HEALTH AND REHABILITATION PROGRAM
CONTRACT COMPLIANCE REVIEW - MENTAL HEALTH SERVICE
PROVIDER**

We have completed a contract compliance review of South Central Health and Rehabilitation Program (SCHARP or Agency), a Department of Mental Health (DMH) service provider.

Background

DMH contracts with SCHARP, a private non-profit community-based organization, which provides services to clients in Service Planning Area 6. Services include interviewing program clients, assessing their mental health needs, and developing and implementing treatment plans. The Agency's headquarters is located in the Second District.

Our review focused on approved Medi-Cal billings where at least 35% of the total service cost was paid using County General Funds. DMH paid SCHARP between \$1.83 and \$4.37 per minute of staff time (\$109.80 to \$262.20 per hour) and \$156.93 per day for services that received this type of funding. However, SCHARP is ultimately reimbursed for costs at year-end. DMH contracted with SCHARP to provide approximately \$5.9 million in services for Fiscal Year 2005-06.

Purpose/Methodology

The purpose of the review was to determine whether SCHARP provided the services outlined in their contract with the County. We also evaluated whether the Agency achieved planned service levels. Our monitoring visit included reviewing a sample of SCHARP's accounting records including billings, client charts, and personnel and payroll records. In addition, we interviewed staff from SCHARP and interviewed a sample of clients or their parents/guardians.

Results of Review

SCHARP did not always comply with the provisions of the DMH contract. The Agency made 14 cash transfers, totaling \$595,000, between SCHARP and another business entity, Barbour & Floyd Associates. Both agencies share the same directors. SCHARP management explained that the transfers were done to meet the cash flow needs of each agency. SCHARP did not properly record all the transfers in their accounting records. As a result, we were unable to determine whether Barbour & Floyd Associates repaid SCHARP all the funds loaned. In addition, we identified undocumented and unallowable expenditures totaling \$12,137.

SCHARP also did not sufficiently document 17% of the service minutes and all five service days sampled. For example, the Agency billed 255 minutes in which more than one staff was present during an intervention but the Progress Notes did not describe the specific contribution of each staff person. The Agency also billed five days for Day Treatment Intensive Services, but the Agency did not describe in the clients' charts the required activities. SCHARP did not always complete their clients' Client Care Plans to ensure the documents contained all the relevant information. For example, eight (26%) of 31 Client Care Plans reviewed did not contain observable and/or quantifiable goals.

We have attached the details of our review along with recommendations for corrective action.

Review of Report

We discussed the results of our review with SCHARP on March 21, 2007. In their attached response, the Agency generally agreed with the results of our review and described their corrective actions to address the findings and recommendations contained in the report. In addition, DMH needs to ensure that all DMH funds loaned to Barbour & Floyd Associates are returned to SCHARP.

We thank SCHARP management for their cooperation and assistance during this review. Please call me if you have any questions or your staff may contact Don Chadwick at (626) 293-1102.

JTM:MMO:DC

Attachment

c: David E. Janssen, Chief Administrative Officer
Dr. Marvin J. Southard, Director, Department of Mental Health
Dr. Reta Floyd, Co-Director, South Central Health and Rehabilitation Program
Dr. Jack Barbour, Co-Director, South Central Health and Rehabilitation Program
Public Information Office
Audit Committee

**DEPARTMENT OF AUDITOR-CONTROLLER
CONTRACT COMPLIANCE REVIEW
SOUTH CENTRAL HEALTH AND REHABILITATION PROGRAM
FISCAL YEAR 2005-2006**

CASH

Objective

Determine whether cash receipts are properly recorded in the Agency's records and deposited timely in the Agency's bank account. Determine whether there are adequate controls over cash. In addition, determine whether reconciliations are prepared timely.

Verification

We reviewed South Central Health and Rehabilitation Program's (SCHARP) May 2006 bank reconciliations for their "general checking" and "J.R. Arms" bank accounts. We also compared the bank reconciliations to SCHARP's accounting records and supporting documentation. In addition, we sampled eight transactions from the "general checking" account and all three transactions from the "J.R. Arms" account listed on the April and May 2006 bank statements and reviewed supporting documentation and the Agency's accounting records.

Results

SCHARP prepared monthly reconciliations of their general checking account but did not resolve reconciling items in a timely manner. Specifically, the reconciliation identified 17 checks totaling \$73,488 that were over 90 days outstanding. This includes one check for \$10,000 that was over 275 days outstanding, six checks that were over one year outstanding and two checks totaling \$60,000 that were over seven months outstanding.

We identified 14 transfers of cash between SCHARP and Barbour & Floyd Associates (Barbour & Floyd) totaling \$595,000 during Fiscal Year (FY) 2005-06. Management explained that SCHARP and Barbour & Floyd share the same directors and that the transfers of funds between the agencies were done to meet each agency's cash flow needs. SCHARP should not loan DMH funds to other Agencies.

SCHARP also transferred DMH funds to a second bank account owned by SCHARP. However, we could not reconcile the bank account to SCHARP's accounting records. Management explained that they had planned to start a third company using the second bank account and stopped recording financial transactions related to the account in SCHARP's accounting records. The Agency subsequently recorded a year-end adjustment in SCHARP's accounting records to reflect the activity from this account.

Recommendations**SCHARP management:**

1. Ensure that bank reconciliations are completed properly and in a timely manner for all accounts.
2. Ensure that reconciling items are cleared timely and close balance sheet accounts created solely to account for reconciling items.
3. Discontinue the practice of loaning Department of Mental Health program funds to other agencies.
4. Ensure that all financial transactions are properly recorded in the Agency's accounting records.

EXPENDITURES**Objective**

Determine whether the expenditures are appropriate and allowable under the County contract and are properly documented.

Verification

We reviewed the supporting documentation for a total of 20 expenditures. The expenditures sampled totaled \$47,113 or 3% of \$1.8 million for FY 2005-06.

Results

The Agency did not maintain documentation for five (25%) of the 20 transactions sampled. The undocumented transactions totaled \$10,667. Specifically:

- Two expenditures totaling \$4,833 were supported by copies of the invoices rather than the original invoices, as required.
- The Agency charged \$2,936 in laboratory fees to DMH. However, the Agency did not maintain all the required documentation.
- The Agency did not maintain documentation to support \$1,444 in fuel costs.
- The Agency did not maintain documentation to support \$1,454 in building repairs and maintenance costs.

SCHARP also used program funds totaling \$1,470 to pay for unallowable expenditures. Specifically:

- The Agency billed \$4,216 to DMH for two monthly premiums for the Agency's general liability insurance coverage. The Agency should have charged the amount to overhead and allocated \$3,536 to DMH. The total amount over-billed was \$680.
- One expenditure totaling \$790 was billed to DMH for food services. However, the supporting documentation did not indicate why it was necessary and/or how it benefited the mental health program.

Recommendations

SCHARP management:

5. **Maintain original invoices/receipts and other appropriate documentation to support program expenditures.**
6. **Repay the County \$12,137 for undocumented and disallowed expenses identified in our report.**
7. **Review FY 2005-06 costs charged to DMH to ensure all costs were appropriately allocated between programs and resolve the billing discrepancies with DMH.**

COST ALLOCATION PLAN

Objective

Determine whether SCHARP's cost allocation plan is appropriate and that the Agency used the plan to allocate shared costs.

Verification

We reviewed the Agency's cost allocation plan, interviewed management and reviewed documentation to support the Agency's allocation of indirect costs billed to DMH for FY 2005-06.

Results

The written cost allocation plan developed by SCHARP is appropriate and the Agency generally followed their plan to allocate pooled costs for FY 2005-06. However, as previously noted in recommendation #7, the Agency needs to identify all shared costs and allocate them between programs.

Recommendation

Refer to Recommendation #7.

COST REPORT

Objective

Determine whether SCHARP's Cost Reports reconcile to their accounting records.

Verification

We reconciled the Agency's original and revised FY 2004-05 and 2005-06 Cost Reports submitted to DMH to the Agency's accounting records.

Results

The Agency's total costs related to DMH and reported in the Cost Reports for FYs 2004-05 and 2005-06 agreed with the Agency's accounting records. However, in preparing the Cost Reports, the Agency estimated their administrative and program costs rather than reporting actual amounts. As a result, the Agency overstated administrative expenses by \$28,379 in FY 2005-06 and understated program expenditures by the same amount.

Recommendation

8. **SCHARP management complete Cost Report detailed information based on actual data rather than estimates.**

PAYROLL & EMPLOYEE BENEFITS

Objective

Determine whether payroll and employee benefit expenses charged to the program were appropriate and documented in accordance with the County contract.

Verification

We reviewed the timecards for May 2006 for a sample of seven of the Agency's 105 employees. We also interviewed the seven employees and reconciled their hours worked to the payroll register. In addition, we compared staff listed on the May 2006 health benefits billing statement with the payroll register.

Results

SCHARP appropriately billed to DMH the seven employees' payroll expenses. In addition, the individuals listed on the health benefits billing statement were eligible to receive paid health benefits.

Recommendation

There are no recommendations for this section.

FIXED ASSETS**Objective**

Determine whether fixed assets and equipment charged to DMH exist, are used in the mental health program and are adequately safeguarded.

Verification

We interviewed staff and requested a list of fixed assets and equipment. We also reviewed the certificate of title for all five vehicles billed to the mental health program.

Results

SCHARP did not maintain a list of equipment and fixed assets, as required. A proper listing includes the asset description, a unique identifier, the assigned individual and the program(s) where the asset is used.

SCHARP is the owner of record for all five vehicles billed to the mental health program.

Recommendation

9. **SCHARP management maintain a listing of the Agency's fixed assets and equipment including description, unique identifier, assigned individual and the program where the asset is used.**

REVENUE**Objective**

Determine whether the revenue and cash flow loans received from DMH were deposited into the Agency's bank accounts in a timely manner and accurately recorded in their accounting records.

Verification

We identified the payments made to the Agency by DMH and reviewed the Agency's bank statements and accounting records for FY 2005-06. In addition, for FY 2004-05 we compared the total amount paid by DMH to the Agency's accounting records.

Results

The Agency deposited the payments made by DMH in the appropriate bank accounts in a timely manner. In addition, these payments were appropriately recorded in the Agency's accounting records.

Recommendation

There are no recommendations for this section.

BILLED SERVICES**Objective**

Determine whether SCHARP provided the services billed in accordance with their contract with DMH.

Verification

We judgmentally selected 4,763 minutes from 115,930 service minutes and 5 days from 9 service days of approved Medi-Cal billings to DMH where at least 35% of the total service cost was paid using County General Funds. We reviewed the Progress Notes, Assessments and Client Care Plans maintained in the clients' charts. The 4,763 minutes and five service days represent services provided to 31 program clients.

Although we started our review in July 2006, the most current billing information available from DMH's billing system was February and March 2006.

Results

SCHARP did not sufficiently document 833 (17%) of the 4,763 service minutes and all five (100%) days sampled. Specifically, we noted the following:

- The Agency billed 295 minutes for services in which the Progress Notes did not contain a procedure code to identify the type of service.
- The Agency billed 255 minutes in which more than one staff was present during an intervention, but the Progress Notes did not describe the specific contribution of each staff person.
- The Agency billed 148 minutes for Mental Health Services in which the Progress Notes did not describe what the clients or service staff attempted and/or accomplished towards the clients' goals.

- The Agency billed 90 minutes for services for an additional staff person, but the Progress Note did not contain the name and duration of service for the additional staff.
- The Agency billed 70 minutes for service, but the Progress Note did not contain the duration of service.
- The Agency billed 45 minutes for Crisis Intervention services; however, the Progress Note does not describe the acuity of the client's situation that required a more timely response than a regularly scheduled visit.
- The documentation used to support five days Day Treatment Intensive Service billings did not include the amount of time the clients were present in the program each day. Therefore, we were unable to determine whether the clients were present at least 50% of the scheduled hours of operations, as required.
- The Agency billed five days for Day Treatment Intensive Services, but the Daily Progress Notes, for the two participants sampled that attended the sessions, did not describe the specific skill building groups, adjunctive therapies, and/or psychotherapy activities in which the clients participated.

The total number of insufficiently documented minutes and days cited above exceeded the number of insufficiently documented minutes and days reviewed because some of the Progress Notes contained more than one deficiency.

In addition, SCHARP did not provide documentation to support 178 (4%) minutes in our sample of billings. The amount of the over-billings totaled \$601.

Day Treatment Intensive Program Duration

SCHARP operates a Day Treatment Intensive Program. The County contract requires that the Agency provide more than four hours of service to bill DMH at the full-day rate. The four-hour timeframe does not include time spent for lunch, dinner and breaks. The Agency maintains a program schedule to document compliance with this requirement. According to the Agency's program schedule, the sessions' timeframes total three hours and thirty-five minutes.

Although the service hours that the Agency provided did not meet the requirements for a full-day billing, the service hours may qualify for a half-day billing. However, the Agency does not have an agreement with DMH to provide half-day sessions. The Agency should work with DMH to determine the amount over-billed.

Assessments and Client Care Plans

SCHARP completed an Assessment of each client sampled. However, the charts did not contain an Annual Assessment Update for two (6%) of 31 clients sampled, as

required by the contract. An Assessment is a diagnostic tool used to document the clinical evaluation of each client and establish the client's mental health treatment needs. An Annual Assessment Update verifies that services to the client continue to be necessary.

SCHARP did not maintain completed Client Care Plans for ten (32%) of the 31 clients sampled. The Client Care Plan establishes goals and interventions that address the mental health issues identified in the client's Assessment. Specifically, eight Client Care Plans did not contain observable and/or quantifiable goals and two Client Care Plans did not contain goals and planned interventions for each type of treatment provided.

Recommendations

SCHARP management:

10. **Maintain sufficient documentation to support its compliance with contract requirements for the services billed to DMH.**
11. **Repay DMH \$601 for the amount over-billed.**
12. **Ensure that the duration of the Day Treatment Intensive Program exceeds four hours excluding lunch and breaks.**
13. **Work with DMH management to determine the amounts over-billed for its Day Treatment program and repay DMH.**
14. **Ensure that Annual Assessment Updates are completed.**
15. **Ensure that Client Care Plans are completed in accordance with the County contract.**

CLIENT VERIFICATION

Objectives

Determine whether the program clients received the services that SCHARP billed DMH.

Verification

We interviewed four participants that the Agency billed DMH for services during the months of February and March 2006.

Results

The four program participants interviewed stated that they received services from the Agency and that the services met their expectations.

Recommendation

There are no recommendations for this section.

STAFFING LEVELS**Objective**

Determine whether the Agency maintained the appropriate staff to client ratio in its Day Treatment Intensive Program.

Verification

We selected five days in February and March 2006 and reviewed the Daily Service Logs and staff timecards. The Agency documents its compliance with staffing requirements on the Daily Service Log, which identifies the staff and clients that participate in the program each day.

Results

SCHARP did not provide the Daily Service Log for one (20%) of the five days tested to confirm that the Day Treatment Intensive Program was properly staffed. SCHARP maintained appropriate staffing levels for the remaining 4 days tested.

Recommendation

16. SCHARP management ensure that documentation is maintained to support appropriate staffing levels in the Day Treatment Intensive Program.

STAFFING QUALIFICATIONS**Objective**

Determine whether SCHARP treatment staff possessed the required qualifications to provide the services.

Verification

We reviewed the California Board of Behavioral Sciences' website and/or the personnel files for 20 (18%) of 111 SCHARP treatment staff employed by the Agency during the months of February and March 2006.

Results

Each employee in our sample possessed the qualifications required to deliver the services billed.

Recommendation

There are no recommendations for this section.

SERVICE LEVELS**Objective**

Determine whether SCHARP reported service levels varied significantly from the service levels identified in the DMH contract.

Verification

We obtained the FY 2005-06 Cost Report submitted to DMH by SCHARP and compared the dollar amount and billed units of service to the contracted units of service identified in the contract for the same period.

Results

SCHARP operated within its overall contracted amount of \$5.9 million. However, within specific service categories the Agency provided 1,500 (38%) less units of Day Treatment Intensive services than contracted and offset the reduction by increasing other services. The shifts in services were performed without prior written authorization from DMH, as required.

Recommendation

- 17. SCHARP management obtain written authorization from DMH prior to deviating from contracted service levels.**

SOUTH CENTRAL HEALTH & REHABILITATION PROGRAM

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April 12, 2007

J. Tyler McCauley, Auditor – Controller
Countywide Contract Monitoring Division
Los Angeles County Department of Auditor –Controller
1000 S. Fremont Ave., Unit 51
Alhambra, CA 91803-4737

RE: South Central Health & Rehabilitation Program (SCHARP) Contract Compliance
Review Response

Dear J. Tyler McCauley,

This letter is in response to the Contract compliance review for South Central Health & Rehabilitation Program.
We appreciated the professionalism with which the Auditor-Controller staff conducted the contract compliance review.

Below are listed the Auditor - Controller recommendations and the agency's plan to address the recommendations.

CASH

Recommendations

SCHARP management:

1. Ensure that bank reconciliations are completed properly and in a timely manner for all accounts.
2. Ensure that reconciling items are cleared timely. Also, close balance sheet accounts created solely to account for reconciling items.
3. Ensure that all financial transactions are properly recorded in the Agency's accounting records.
4. Discontinue the practice of loaning DMH program funds to other agency.

Agency Response:

All correcting journal entries are posted to the fiscal year end (FYE) June 30, 2006 general ledger and are properly reported on the FYE June 30, 2006 Cost Report. A copy of these

statements along with the FYE June 30, 2006 independent audited financial statements were provided to the Auditor-Controller Office.

The agency is committed to ensuring that all transactions are properly recorded and in a timely manner. To that end, the company intends to streamline its cost allocation method and has already committed additional resources to accounting. These moves will allow more frequent reviews of the general ledger and will ensure that reconciliations and reconciling items are performed and cleared on a timely basis.

The agency will adopt a policy to clear outstanding checks older than six months and to close balance sheet accounts to account for reconciling items. SCHARP will post all bank account activity on SCHARP's books on an ongoing basis as suggested.

We wish to clarify the \$595,000 of transfers referred to in the audit report. These transfers comprised of:

Loans to another agency, Barbour and Floyd Medical Associates	\$ 280,000
Repayments by Barbour and Floyd Medical Associates back to SCHARP	\$ 215,000
Internal transfer between SCHARP bank accounts	<u>\$ 100,000</u>
Total transfers	<u>\$ 595,000</u>

The loans to the other DMH agency were made due to extraordinary circumstances and SCHARP does not intend to continue this practice in the future. SCHARP was owed \$95,521.98 as of June 30, 2006 and this balance was repaid, in full, to SCHARP. The documentation evidencing repayment along with determination of the outstanding balance has been provided to the Auditor-Controller Office.

SCHARP met its contract amount and incurred over \$5.7 million in DMH programs costs despite receiving only \$5.4 million in funds during the fiscal year from DMH. SCHARP was able to accomplish this because it received significant amounts of outside financing (over \$625,000 in loans and lines of credit) and funding.

EXPENDITURES

Recommendations

SCHARP management:

5. Maintain original invoices /receipts and other appropriate documentation to support program expenditures.
6. Repay the County \$12,137 for undocumented and disallowed expenses identified in our report.

7. Review FY 2005-06 costs charged to DMH to ensure all costs were appropriately allocated between benefiting programs and resolve the billing discrepancies with DMH.

Agency Response:

SCHARP will ensure that original documentation are obtained and retained for program expenditures. SCHARP will review it's costs and resolve any discrepancies. SCHARP will repay the County for any disallowed costs.

COST ALLOCATION PLAN

Agency Response

We are pleased that the auditor found SCHARP to be in compliance in this area.

COST REPORT

Recommendation:

SCHARP management:

8. Complete Cost Report detailed information based upon actual data rather than estimates.

Agency Response

A repayment request has been submitted to DMH and a copy of the request has been provided to the Auditor-Controller Office. SCHARP will split program and administrative costs on the Cost Report based upon actuals but we would like to emphasize the fact that total costs reported were correct.

We are pleased that both 2004-2005 and 2005-06 Cost Reports agree to the accounting records.

PAYROLL AND EMPLOYEE BENEFITS

Agency Response

We are pleased that the auditor found SCHARP to be in compliance in this area.

FIXED ASSETS

Recommendation

9. SCHARP management maintain a listing of the Agency's fixed assets and equipment including description, unique identifier, assigned individual and the program where the asset is used.

Agency Response

SCHARP will dedicate resources to ensure that fixed assets and inventory ledgers are properly maintained.

REVENUE

Agency Response

We are pleased that the auditor found SCHARP to be in compliance in this area.

BILLED SERVICES

Recommendations

SCHARP management:

10. Maintain sufficient documentation to support its compliance with contract requirements for the services billed to DMH.
11. Repay DMH \$601 for the amount over billed.
12. Ensure that the duration of the Day Treatment Intensive Program exceeds four hours excluding lunch and breaks.
13. Work with DMH management to determine the amounts over billed for its Day Treatment program and repay DMH.
14. Ensure that Annual Assessment Updates are completed.
15. Ensure that Client Care Plans are completed in accordance with the County contract.

Agency Response

Additional staff training on the DMH documentation standards particularly in situations where more than one staff person is providing interventions to a client and in recognizing and

documenting crisis intervention services will be conducted with the SCHARP staff providing services to clients.

Supervisory staff will continue to review random samples of each staff person's notes to monitor documentation standards as it pertains to documentation of services directed toward client goals.

The agency will review with Administrative support staff the established agency Policy's and Procedures for reviewing staff documentation to ensure procedure codes and service minutes on the notes are present and match the service logs before submission to the agency IS Department for input.

The agency will repay DMH for the \$601 in over billed services

The Day Treatment Intensive Program schedule was adjusted to exceed four hours, excluding lunch and breaks.

SCHARP will contact DMH management to initiate planning to determine the amount over billed for its Day Treatment program and repay DMH.

South Central Health & Rehabilitation Program reviews each client case in terms of service needs and planning in its "window" month during scheduled clinical / team conference meetings. Program LPHA / supervisory staff will be reminded that the Annual Assessment Update is required at the annual Coordination Cycle window and should be completed at this time.

Program LPHA / supervisory staff will be reminded that during their review & approval of the CCP to ensure that goals are developed for each planned service, that developed goals are specific and quantifiable.

Additional training in these areas for LPHA / supervisory staff will be conducted.

The agency Quality Improvement staff will continue random review of all chart documentation requirements, providing Program Directors with copies of completed review reports and monitor charts selected for review ensuring corrections are completed in a timely manner. Progress in these areas will be reported in scheduled QA meetings.

CLIENT VERIFICATION

There are no recommendations in this area.

STAFFING LEVELS

Recommendations

16. SCHARP management ensure that documentation is maintained to support appropriate staffing levels in the Day Treatment Intensive Program.

April 13, 2007

Agency Response

The agency's service log has been modified to reflect Day Treatment Intensive program staffing levels. Original service logs are forwarded to the agency's IS department who is responsible for safe guarding and storing the documents.

STAFFING QUALIFICATIONS

There are no recommendations for this section.

SERVICE LEVELS

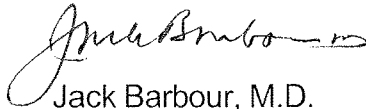
Recommendations

17. SCHARP management obtain written authorization from DMH prior to deviating from contracted service levels.

Agency Response

South Central Health & Rehabilitation Program management will comply with requests regarding variations in negotiated service levels.

Sincerely,



Jack Barbour, M.D.
Co-Director



Reta D. Floyd, M.D.
Co-Director